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Tax Features

Brady Announces New Treasury Studies at Foundation's Conference On Tax and Trade Policy

On June 3 in Washington, DC, Secretary of the Treasury Nicholas Brady announced at the Tax Foundation's conference on U.S. tax and trade policies that the Treasury would undertake "a comprehensive study of our system of taxing multinational business and investment activities."

Secretary of the Treasury Nicholas Brady speaking at the Foundation's conference on U.S. tax and trade policies.

At the same time, Brady said the Treasury would study the corporate minimum tax "to determine the extent to which that provision is inhibiting the creation, accumulation, and mobility of capital ... and continue to pursue the corporate integration study."

The Foundation conference, titled "The Discord in U.S. Tax and Trade Policies: Prescriptions for Change," opened with a keynote address from Clayton Yeutter, Counsellor to the President for Domestic Policy. Secretary Yeutter spoke broadly about the relationship of federal budget deficits to trade deficits. He pointed out that the merchandise trade deficit has fallen from $170 billion in 1985 to today's $70 billion,

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TAX FOUNDATION

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FRONT BURNER

Wilbur Mills: A Chairman's Chairman

Representative Ray Thornton

Last month, with the death of Wilbur Mills, this country lost one of the greatest Members ever to serve in the United States House of Representatives.

Wilbur Mills was born in Kensett, Arkansas, on May 24, 1909, a town whose welcome sign reads "Kensett, Home of Wilbur Mills." He graduated from Hendrix College and studied law at Harvard University. He was admitted to the Arkansas bar in 1933, and in 1935, at the age of 25, was elected to the position of county and probate judge for White County.

Wilbur Mills was first elected to the U.S. House of Representatives in 1938, and served in 18 successive congresses. He was appointed to the Committee on Ways and Means in 1943, and became its chairman in 1959. His service as chairman spanned more years than any other chairman of that committee, and tax policy during his tenure was marked by a stability that is sorely lacking now. He oversaw nearly every important piece of domestic legislation, and many far-reaching programs still bear his mark. Moreover, the Tax Reform Act of 1969 was, at that time, the most significant reform effort since enactment of the current federal tax system in 1913. In 1958 and again in 1968, he received the Tax Foundation's Distinguished Service Award, joining Harry F. Byrd, Sr., as the only other person to receive that distinction twice. When Mr. Mills left Congress at the end of 1976, he joined the Washington office of Shea & Gould, where he built a new, successful career as a corporate tax lawyer and consultant.

See Thornton on page 2

Ray Thornton, Democrat from Arkansas, serves on the Government Operations Committee and the Science, Space, and Technology Committee. He is currently in his first term, but served previously from 1973-1979.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Front Burner from page 1

It is my privilege now to be serving the second congressional district of Arkansas, which was Chairman Mills' district for many years. However, when I first came to the U.S. House of Representatives, at the beginning of the 93rd Congress in 1973, Wilbur Mills was starting on his 18th term in the House. At that time, Mr. Mills was chairman of both the Committee on Ways and Means and the Committee on Committees. He tried very hard to get an assignment for me on the Committee on Appropriations. Of course, that kind of assignment was unheard of for freshman Members of Congress, so I was not dismayed when he called to suggest that the Committee on the Judiciary would be a nice, quiet place for me to build up some seniority. I still do not know, to this day, whether Chairman Mills knew that the thirty-seven members of that nice, quiet committee would all too soon be charged with the immense responsibility of deliberating the impeachment of the President of the United States. Nevertheless, there was one thing of which I was sure. That is, that he was a true friend who was looking after me.

In describing the place that Chairman Mills has earned in American history, scholars will doubtless note that he was one of the greatest legislative engineers of all time.

On the one hand, Chairman Mills possessed insights into the workings of Washington, D.C., which were unexcelled. On the other, he had a genuine desire to look after the many, many people he counted among his friends. When Mr. Mills was first elected to the U.S. House of Representatives in 1938, one of his advisors, Max Allison, told him to hang up his farmer's cap and wear a hat. Wilbur Mills followed that advice, but he never did abandon his ties to the average citizens and their values. He always stayed close to his Arkansas constituents and would invite them directly into his office regardless of the number of, or power possessed by, the officials who were waiting in his reception room to see him.

In describing the place that Chairman Mills has earned in American history, scholars will doubtless note that he was one of the greatest legislative engineers of all time. They will list his achievements in writing tax and trade law, and they will chalk them up to his remarkable intellectual gifts and to his political wisdom. During his tenure in Congress, he worked with seven Presidents: Franklin Roosevelt, Harry Truman, Dwight Eisenhower, John Kennedy, Lyndon Johnson, Richard Nixon, and Gerald Ford. President Kennedy, whom Mills liked the best, told a massive crowd at the dedication of Greers Ferry Dam in 1962 that when the Chairman told him where to be, he showed up and he made a speech.

In 1958 and again in 1968, he received the Tax Foundation's Distinguished Service Award, joining Harry F. Byrd, Sr., as the only other person to receive that distinction twice.

It is generally well known that Wilbur Mills was legendary for having practically memorized the Internal Revenue Code and knowing all of its intricate parts and how they related to each other. Because of his knowledge of the tax code, Wilbur Mills had great power, and it is often said that, because of his position and power, he was the second most powerful man in America. However, notwithstanding his enormous knowledge of, and influence over, the tax code, he never even itemized his tax deductions nor did he hold any personal business interests that might have benefitted from his legislative activities. Wilbur Mills was the kind of person who put the betterment of the country before his own personal interests and who used his position of power to that end.

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If scholars and historians stop after listing Wilbur Mills' legislative achievements, they will fall far short of measuring the man. For all of his stature, for all of his brilliance, and for all of the demands that were made on his time, Chairman Mills never forgot his friends, whether they were heads of state or neighbors that he passed on the streets of Kensett, Arkansas. For me, and countless other people from all walks of life, Chairman Mills was, first and foremost, a thoughtful, caring, and truly gentle man who never forgot his roots.

Because of his knowledge of the tax code, Wilbur Mills had great power, and it is often said that, because of his position and power, he was the second most powerful man in America. However, ... he never even itemized his tax deductions, nor did he hold any personal business interests that might have benefitted from his legislative activities. Wilbur Mills was the kind of person who put the betterment of the country before his own personal interests and who used his position of power to that end.

There are still a few men and women in Congress who share with me the good fortune to have served with Chairman Mills and to have known firsthand what a rare and special man he was. It was a great honor, indeed, to have worked with Chairman Mills, but it was an even greater privilege to have been his friend. ■

Tax & Trade from page 1

and that the $70 billion is balanced by a services trade surplus of approximately the same amount. Yeutter called this trend "immense progress" but noted that "we don't have those capital flows coming in to contribute to the handling of our federal budget deficit as we had before."

Yeutter briefly addressed the place of the value-added tax in the tax and trade debate, pointing out that the GATT

At left, Dexter Baker, chairman of Air Products and Chemicals, Inc., chats with Treasury Secretary Nicholas Brady.

rules allow VATs to be rebated. Even this disadvantage of our tax system is only transitory, according to Yeutter "because exchange rates will adjust ... in a relatively short period of time."

The first panel session of the morning, "The Outlook for Sound Tax and Trade Policies: A View From Congress," featured four Members of Congress who play key roles in formulating tax and trade policy. Senator Max Baucus (D-MT), chairman of the Senate Finance Committee's Subcommittee on International Trade, declared that "the greatest public challenge we face in America today is halting and reversing our country's loss of competitiveness." He sees that as a two-front war: opening markets abroad where anti-competitive trade practices currently prevail, and working at home to improve education, infrastructure, and technology.

Clayton Yeutter, Counsellor to the President for Domestic Policy, answers questions from the press after his speech.

Senator John C. Danforth (R-MO), ranking Republican on the Subcommittee on International Trade, sees federal budget deficit reduction as the best trade policy the U.S. can pursue and thinks that deficit reduction must be the primary issue in this election year. He noted that our huge national debt amounts to dissaving and tends to operate as a dead weight on the functioning of our economy and on American competitiveness.

Representatives Sam Gibbons (D-FL), chairman of the House Ways and Means Committee's Subcommittee on Trade, and Richard T. Schulze (R-PA), ranking Republican of the Ways and Means Committee's Subcommittee on Oversight, completed the congressional panel.

Next, four executives discussed the impact of U.S. tax and trade policies on our global competitiveness. The speakers were Onno Ruding, Vice Chairman, Citicorp; James R. Jones, Chairman, American Stock Exchange; Dexter F. Baker, Chairman, Air Products and Chemicals, Inc.; and Timm Crull, Chairman & CEO, Nestlé USA.

"Assessing U.S. Tax and Trade Laws in the Post-Cold War Era" was the theme of the last panel. Tax Foundation Co-Chairman James Q. Riordan, Esq., introduced the subject, then turned it over to Ernest S. Christian, Jr., Esq., Partner, Patton, Boggs & Blow; and Gary Hufbauer, Ph.D., Wallenberg Professor of International Financial Diplomacy, Georgetown University. ■

Tax Foundation Executive Director Dan Witt at left with Treasury Secretary Brady.

From left: Tax Foundation Chief Tax Counsel Floyd L Williams, III, Senator John Danforth (R-MO), and Onno Ruding, vice chairman of Citicorp.

From right, Tax Foundation Co-Chairman James C. Miller III speaks to Senator Max Baucus (D-MT), Tax Foundation Chief Tax Counsel Floyd L Williams, III, and Timm Crull, Chairman & CEO, Nestlé USA.

Foundation Holds Seminar on Texas State Tax Policy

Dallas was the site last May 21 of the Tax Foundation's most recent in a series of seminars examining the impact of state and local fiscal policies on economic growth. Titled "Texas State and Local Tax Policy — Meeting The Economic Challenge," the program was conducted with the cooperation and guidance of the Greater Dallas Chamber of Commerce, the Financial Executives Institute, the Tax Executives Institute, and the Plano Chamber of Commerce.

Luncheon speaker W. R. Howell, Chairman of the Board and Chief Executive Officer, J. C. Penney Company, Inc.

Thomas H. Cruikshank, Chairman & Chief Executive Officer, Halliburton Company

John Goodman, president of the Dallas-based National Center for Policy Analysis, kicked off the program by presenting an overview of the nation's fiscal problems, then highlighting fiscal causes of Texas's economic woes.

Three panels of fiscal policy experts from Texas's public and private sectors followed by examining in detail the causes of, and potential cures for, the state's ailing economy. The first session focussed on how tax policies are formulated and the potential fallout of a special legislative session. Jack Skinner, vice president of taxes for Halliburton Co., shared the panel with E. Kenneth Black, state legislative coordinator for Electronic Data Systems Corporation, and William Allaway, executive vice president of the Texas Association of Taxpayers.

James Evatz, manager of ad valorem taxes, J.C. Penney Company, chaired the second session on public school financing. Dr. Jim Surratt, superintendent of the Plano Independent School District debated Dr. Billy D. Walker, executive director of the Texas Association of School Boards over new approaches to improve Texas's education system.

The state budget process and the impact that tax policies have on state economic development were addressed in the third session. Garry Miles moderated a lively discussion with Dr. Bernard Weinstein, director of the Center for Economic Development and Research at the University of North Texas and Jan Hart, Dallas's city manager. A luncheon program followed with participation by two Texas-based chief executive officers — Thomas H. Cruikshank of Halliburton Co. and W.R. Howell of J.C. Penney Company. (See opposite page for a digest of Howell's luncheon address.) ■

Keynote speaker John Goodman, President, National Center for Policy Analysis

From left: Thomas H. Cruikshank, Chairman & Chief Executive Officer, Halliburton Company; Frances Wright, Esq.; Dan Witt, Executive Director, Tax Foundation; W. R. Howell, Chairman of the Board and Chief Executive Officer, J. C. Penney Company, Inc.; Paul G. Merski, Director of Fiscal Affairs, Tax Foundation; and Ron Bunn, Director of Corporate Development, Tax Foundation.

James N. Evatz, Manager of Ad Valorem Taxes, J.C. Penney Company, Inc., moderated the second session of the program, which addressed the problems Texas has been experiencing with its financing of public education.

W.R. Howell
Chairman of the Board and Chief Executive Officer
J.C. Penney Company.

Control of Government Spending Critical to Prosperity for States and Localities

In spite of the record tax increases enacted last year, many state legislatures are again facing major budget shortfalls. Twenty-seven states have an aggregate projected shortfall of $5.8 billion for the current fiscal year, which ends this June 30th. This follows two years of tax increases, which exceeded 22 billion dollars.

The electorate has responded both vocally and at the ballot box. They defeated almost all state initiatives that would have increased taxes — plus they enacted state term limitations in California, Colorado, and Oklahoma. Without question, state legislators are getting the message. One constant theme heard throughout all state and local governments is that the philosophy of "business as usual" has ended.

Unfortunately, the federal government continues to put additional fiscal pressure on the states by saddling them with unfunded mandates. This burden has increased substantially in the last several years — and shows no sign of being curtailed in the future. So overall, most states are faced with declining revenues and increased spending.

In addressing the states' financial plight, we must always examine the spending side of the budget equation before considering additional tax revenues. Texas took a strong first step toward bringing spending under control during 1991 when the comptroller conducted performance audits on the various state agencies. These performance audits examined many state government operations and raised tough questions about how our tax dollars are spent.

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Some changes were made, but this is only a start. Measures must be put into place to restrain the growth in future state government spending. These limitations could include: restricting the growth in spending to the growth rate of the state's economy, as measured by gross state product; and requiring any new programs to specify the revenue source to fund the program or reduce spending on other programs. Reforms such as these must precede any major restructuring of a state's tax system.

State governments must address the needs of their citizens, of course, but they must realize that they cannot be all things to all people. They must focus on what they can afford, and spend their resources on those services deemed to be most critical.

In fact, I believe there's a strong argument for states to hold hearings on the potential impact of living within budgets based solely on current revenue levels. I am sure the citizens of each state would have strong and valid opinions about where their money should be spent.

Let me share with you our opinion of what constitutes good tax policy. First, tax policy must not have a negative impact on economic growth. Dr. Richard Vedder — formerly an economist with the Joint Economic Committee of Congress — has issued a study regarding the impact of state and local taxes on economic growth in Pennsylvania. He concluded, "Economic growth can be measured by looking at the change in real per capital income, or the migration of business capital, or changing employment. Evidence is overwhelming using all three approaches that state and local taxes can and do have an adverse impact on the rate of economic growth." This is a clear warning about the detrimental effect of increased taxes — and should be heeded by every state intent on economic growth.

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Second, the tax system must have stability and predictability for planning purposes. And third, the current economic environment does not lend itself to the unknown effects of a major tax overhaul. While some economic indicators are picking up, recovery is slow in coming. Major tax revisions in this transitionary period would be bad policy.

Harrison Salisbury, the Pulitzer prize winning journalist, grew up in the depression in Minnesota and went off to cover World War II. Following the war, he reported from Moscow; he covered Vietnam; he's a recognized authority on developments in China; and he's been a keen observer of America throughout these past 50 years.

Last weekend, I asked him whether he could remember a more uncertain time for our country. He said he could not.

"For my part," he said, "I believe we've lost our center. We have allowed ourselves to be divided into countless competing political, ethnic, economic, and emotional fiefdoms, each concerned only with its place on the turf of reward and recognition. In these fiefdoms, there is only one litmus test of worthiness: Will it serve my interest?"

I believe those words say a lot about where we are today — and why some fundamental changes are so very important to the continued health and prosperity of this country.

In closing, states should make every effort to keep their tax climate favorable to the formation and attraction of business interests — both for the business itself and the individual taxpayers who participate in it. That's the foundation for economic growth — and, indeed, the foundation of America's free enterprise system. ■

Property Tax Collections Reach $150 Billion Nationwide in FY'90

State and local property tax revenues climbed $13.1 billion in fiscal year 1990, a 9.2 percent increase over 1989. The $155.6 billion collected in 1990 from property taxes is over twice the revenue collected a decade earlier, and represents 31 percent of state/local revenues.

Primary Source of Local Revenues

For local governments, property taxes continue to be the primary source of tax revenue. In FY'90, $150 billion in property tax levies provided 74.5 percent of local tax revenue, a 9.2 percent increase over FY'89. In contrast, state governments collected only 2 percent of their tax revenues from property tax levies. Forty-two states levy a property tax, but the insignificance of the collections is explained by the narrow base upon which the tax is imposed.

Growth Rates Per Capita and Per $1,000 of Personal Income

Property tax revenue has risen nearly 127 percent over the past decade, from $68.5 billion to $155 billion. Per capita growth has been only slightly less dramatic, rising 107 percent, from $302 in 1980 to $626 in 1990. Relative to personal income, property tax revenue per $1,000 of income has risen slightly, from $35 to $36.

Five states and the District of Columbia now collect over $1,000 per person in property tax revenue. Despite a modest decline in per capita collections from FY'89, Alaska still has the highest per capita burden ($1,246). The other five states with a per capita burden above the $1,000 mark are the District of Columbia ($1,198), New Hampshire ($1,151), New Jersey ($1,149), Connecticut ($1,056), and New York ($1,023). At the other end of the property tax spectrum, the lowest per capita burdens were found in Alabama ($163), New Mexico ($219), Arkansas ($228), Kentucky ($252), and West Virginia ($256). Residents of the states with the highest per capita burdens paid an average of $936 more than those living in states with the lowest per capita burdens.

Property tax growth rates for the decade ranged from a staggering 248.4 percent in the District of Columbia, with Florida in a distant second at 172.8 percent, and New Hampshire placing with a 155 percent per capita growth rate. No state experienced a decline in per capita state/local tax collections from 1980 to 1990.

Property Taxes Per $1,000 of Income

Property tax collections per $1,000 of personal income provide a better yardstick with which to estimate the property tax burden in a given state. Leading the country in this category in 1990 was Alaska ($60), despite a 24 percent decline since 1980. Following

State/Local Property Tax Collections by State

Per Capita and Per $1,000 of Personal Income

Fiscal Years 1980 and 1990

State	Per Capita Amount 1980	Per Capita Amount 1990	Per Capita Percent Change	Per Capita Rank 1990	Per $1,000 of Personal Income Amount 1980	Per $1,000 of Personal Income Amount 1990	Per $1,000 of Personal Income Percent Change	Per $1,000 of Personal Income Rank 1990
Total	$ 302	$ 626	106.9%	-	$ 35	$ 36	.4%	-
Alabama	79	163	107.3	51	12	12	.7	51
Alaska	900	1,246	38.5	1	79	60	-24.0	1
Arizona	352	636	80.7	23	46	41	-10.5	17
Arkansas	134	228	70.9	49	20	17	-14.2	48
California	274	602	119.9	25	28	31	8.8	32
Colorado	329	684	107.8	19	38	39	2.9	23
Connecticut	473	1,056	123.1	5	47	43	-6.9	15
Delaware	167	304	82.3	44	18	16	-11.2	50
Dist. of Col.	344	1,198	248.4	2	32	55	74.2	5
Florida	224	612	172.8	24	29	35	21.3	25
Georgia	199	494	148.2	32	28	31	11.4	31
Hawaii	193	384	99.0	39	22	21	-5.8	42
Idaho	227	414	82.7	37	31	30	-3.9	33
Illinois	367	754	105.5	15	38	39	2.4	21
Indiana	246	472	92.3	34	29	30	2.9	34
Iowa	360	660	83.5	20	41	42	2.0	16
Kansas	366	658	80.1	21	39	39	-1.2	22
Kentucky	135	252	86.2	48	19	18	-5.4	47
Louisiana	111	269	142.2	46	15	20	30.6	45
Maine	319	722	126.0	17	47	45	-3.3	14
Maryland	288	590	104.7	27	31	29	-7.7	37
Massachusetts	555	778	40.1	13	62	36	-42.0	24
Michigan	413	820	98.4	11	44	47	6.2	11
Minnesota	324	709	118.6	18	37	40	8.9	20
Mississippi	141	341	142.6	42	24	29	22.8	38
Missouri	216	342	58.7	41	26	21	-20.3	43
Montana	455	828	82.0	9	59	58	-1.6	3
Nebraska	401	762	90.3	14	46	48	4.3	10
Nevada	256	425	66.1	36	28	24	-13.8	39
New Hampshire	451	1,151	155.6	3	56	57	1.6	4
New Jersey	499	1,149	130.3	4	51	48	-6.1	9
New Mexico	142	219	53.7	50	20	16	-16.3	49
New York	501	1,023	104.3	6	55	49	-11.1	8
North Carolina	171	353	106.5	40	24	23	-3.4	40
North Dakota	269	476	77.0	33	32	34	4.7	26
Ohio	281	516	83.5	30	32	31	-3.5	30
Oklahoma	151	277	83.2	45	19	19	2.7	46
Oregon	382	854	123.4	8	45	54	21.3	6
Pennsylvania	249	516	106.9	31	29	29	0	35
Rhode Island	413	806	94.9	12	50	45	-8.9	13
South Carolina	160	401	151.6	38	24	29	21.5	36
South Dakota	351	583	66.1	29	47	41	-12.0	19
Tennessee	158	321	103.9	43	22	22	-4.0	41
Texas	280	651	132.7	22	34	41	22.5	18
Utah	236	432	83.9	35	35	33	-4.4	28
Vermont	377	822	118.3	10	53	50	-6.4	7
Virginia	236	598	153.6	26	28	32	13.5	29
Washington	290	584	101.0	28	32	34	6.9	27
West Virginia	137	256	87.4	47	19	20	4.0	44
Wisconsin	361	738	104.7	16	42	45	6.5	12
Wyoming	552	901	63.3	7	58	59	2.1	2

Source: Department of Commerce; and Tax Foundation computations.

close behind are Wyoming ($59), Montana ($58), New Hampshire ($57), and the District of Columbia ($55). States with the lowest property tax burdens in 1990 were Alabama ($12), Delaware ($16), New Mexico ($16), Arkansas ($17), and Kentucky ($18).

From 1980 to 1990, property tax burdens relative to personal income increased in 24 states and the District of Columbia. D.C. had the most drastic increase, 74 percent, from $32 to $55. In contrast, Massachusetts and Louisiana reported declines in their property tax burdens relative to personal income, at 42 percent and 30.6 percent, respectively. (The table at left provides additional detail.) ■

U.S.-European Conference Proceedings Published

The Foundation has published the proceedings of its conference last January, "EC'92 and Its Implications for Global Competitiveness." Informal panel discussions took place with government tax officials and business representatives in the UK, France, Belgium, and Germany.

Congressional tax-writing committee staff and personal staff of committee members attended. Corporate participants were: Brown & Williamson Tobacco, Inc., Glaxo, Inc., Xerox Corporation, BASF Corporation, Citicorp/Citibank, N.A., ITT Corporation, Rhône-Poulenc, Inc., and Nestlé Holdings, Inc.

The proceedings are edited and annotated by Tracy A. Kaye, Assistant Professor of Law, Seton Hall University School of Law, and Research Fellow, Tax Foundation. ■

Recent Foundation Publications

Seminar Proceedings: EC'92 and Its Implications for Global Competitiveness	**24 pp.; $10 + $2 p/h**
Facts and Figures on Government Finance, 1992 Edition	**Cloth; 359 pp.; $55 + $2 p/h**
Special Report: The 1992 Federal Tax Burden by State	**8 pp.; $8 + $2 p/h**
Special Report: 1993 State Fiscal Prospects	**12 pp.; $8 + $2 p/h**
Seminar Proceedings: The Role of Tax Policy in Economic Growth	**47 pp.; $10 + $2 p/h**
Special Report: Tax Freedom Day 1992 is May 5	**8 pp.; $8 + $2 p/h**

FOUNDATION MESSAGE

The Path to Post-Cold War Prosperity

Dan Witt
Executive Director

There is a growing concern that the American economy is not as competitive with foreign nations as it used to be, partly due to conflicting and punitive tax and trade policies. The Foundation's most recent conference in Washington (see page 1) explored those conflicting policies, and offered prescriptions to promote the free flow of goods, services, and capital across international borders, in an attempt to point the way toward more competitive tax and trade policies.

This discussion was especially timely because the end of the Cold War has brought the world's military and economic alignments to a critical juncture. Some Western military relationships are clearly diminishing in importance. Unfortunately, these changes appear to be weakening the mutually beneficial economic relationships that we have enjoyed with our major trading partners since World War II.

Western Europe is increasingly preoccupied with EC'92 and the newly independent nations of Eastern Europe, leading President Bush to raise the specter not too long ago of an "iron curtain of protectionism" descending around Europe. Meanwhile, the war of words continues between U.S. and Japanese politicians over international trade issues.

The United States is the world's leading economic power. Instead of standing on the sidelines, or even worse, contributing to trade frictions, we should lead by example, adopting tax and trade policies that do nothing to stifle commerce. It is reasonable to assume that other countries will follow suit if we make substantial strides in reducing our tax and trade barriers.

EC'92 itself provides a dramatic example of other countries' emulating U.S. success in this area. The move toward a single European market with no internal barriers is a direct consequence of our own free flow of goods, services, capital, and people among states. Europe recognized the economic advantages of a huge market with few internal barriers, and decided to go us one better by forming an even larger market. The prospect of a unified Europe, in turn, gave more impetus to U.S. efforts to forge a North American Free Trade Agreement.

Will such changes accelerate the race toward open markets, or will the world break down into rival trading blocs?

Recent changes in the U.S. tax code have not been helpful in this regard. Trade barriers of a sort have been erected, mostly in the way certain types of income are treated by the tax law. Compared to the tax laws of other industrialized nations, such as Japan, West Germany, and the United Kingdom, U.S. tax law is overly complex and lacks stability because of frequent changes. This puts U.S. multinationals at a competitive disadvantage by making their long-range planning much more costly than it is for their foreign counterparts. Moreover, rigorous recordkeeping requirements imposed on foreign-owned U.S. corporations and an aggressive posture of worldwide jurisdiction on the part of the IRS have been the subject of much argument and have caused justifiable fears of retaliation from foreign governments.

The great public debate over the direction of the world economy rages on, as it has since the demise of Soviet communism. The Tax Foundation will continue to play its role in that debate, providing a forum for discussion of prudent changes in U.S. policy that would promote international trade by reducing tax burdens and lowering trade barriers.

Foundation Delegation To Advise Russian Government on Taxation of Foreign Investment

The Tax Foundation has been invited by Russia's State Committee on Taxation and Ministry of Finance to lead a delegation of noted tax experts to visit Moscow from July 1-7. The group will help develop guidelines for future laws governing the taxation of foreign investment in Russia. On July 7 in Moscow and Washington, a statement will be issued jointly by the delegation and relevant Russian officials, offering recommendations for the resolution of key tax issues in the foreign investment area.

I.A. Lazarev, chairman of the Russian State Tax Committee, issued the invitation to the Tax Foundation through the Foundation of International Cooperation and Development.

The American delegation includes: The Honorable Bill Frenzel, Guest Scholar, Governmental Studies, The Brookings Institution (delegation leader); Dr. Charles C. McLure, Jr., Hoover Institution, Stanford University; Edward Lieberman, Esq., Pepper, Hamilton & Scheetz; Bruce S. Brown, Vice President - Taxes, Philip Morris Companies Inc.; Ken Crawford, Partner, KPMG Peat Marwick; Robert S. Enright, Vice President - Taxes, PepsiCo, Inc.; Richard Gordon, Partner, Arthur Andersen & Co.; David C. Jory, Vice President, Citicorp/Citibank, N.A.; Ian Lee-Leviten, Vice President, Tax Planning & Audit, RJR Nabisco, Inc.; Alan J. Lipner, Senior Vice President - Corporate Taxes, American Express Company; Daniel H. Payne, Vice President - Taxation, BHP Minerals Incorporated; George W. Reardon, Director of Taxes, Archer Daniels Midland Company; James Q. Riordan, Esq.; Jack R. Skinner, Vice President - Taxes, Halliburton Co; and Dan Witt, executive director of the Tax Foundation.

The Russian officials they will meet include: Yegor Gaidar, Acting Prime Minister; A.G. Shapovaliantz, Deputy Minister of Finance; Alexander Pochinok, Chairman, Committee on Budget and Prices, Supreme Soviet of Russia; A.P. Vavilov, First Deputy Minister of Finance; Sergei Filatov, First Deputy Chairman, Supreme Soviet of Russia.

This opportunity for the Foundation to guide the establishment of the Russian tax code has arisen thanks to the Moscow Business Conference, which the Foundation co-sponsored in December 1991. Amidst all the turmoil of that season in Moscow, Foundation members were teaching Russian entrepreneurs the nuts and bolts of the free enterprise system and coaching government officials to avoid overly complex policies that discourage foreign investment. Yegor Gaidar, Acting Prime Minister, and A.G. Shapovaliantz, Deputy Minister of Finance, were both participants in that conference and will play a key role in the success of the upcoming meetings. ■

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Tax Foundation
470 L'Enfant Plaza, S.W.
Suite 7400
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